

California State Teachers' Retirement System

(A component unit of the State of California)

**Basic Financial Statements
and Supplemental Information
June 30, 2003**

Report of Independent Auditors

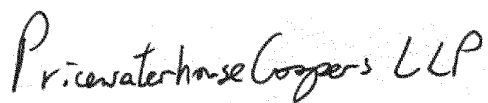
To the Teachers' Retirement Board
California State Teachers' Retirement System

In our opinion, based upon our audit and the report of other auditors, the accompanying basic financial statements present fairly, in all material respects, the combined fiduciary net assets of the California State Teachers' Retirement System (System), a component unit of the State of California, at June 30, 2003, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management; our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the System's Voluntary Investment Program, which statements reflect total net assets and total additions to net assets of less than one percent of the related combined totals as of June 30, 2003, and for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Voluntary Investment Program, is based solely on the report of the other auditors. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion. We previously audited and reported on the financial statements of the System for the year ended June 30, 2002, the reporting entity totals of which are included for comparative purposes only.

As discussed in Note 1 to the basic financial statements, the System has an unfunded obligation as determined by an estimate of the pension benefit obligation provided by the System's actuary as of June 30, 2001. Based upon the 2001 actuarial valuation, the future annual contributions required under the California State Education Code appear to be sufficient to fund the System's unfunded obligation by 2030.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in Schedules I and II is required under GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The supplemental information included in Schedules III through VII is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion and based on the report of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole from which it has been derived.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 9, 2003

California State Teachers' Retirement System

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2003

This Management's Discussion and Analysis (MD&A) of the California State Teachers' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2003. The MD&A is designed to focus on the current year's activities, resulting changes and currently known facts. We encourage you to read it in conjunction with the System's basic financial statements, notes to the basic financial statements and the Chief Executive Officer's Letter of Transmittal included in the Introduction section of the System's 2003 Comprehensive Annual Financial Report.

The System is primarily responsible for administering retirement, disability, survivor and health benefits, as well as administering a supplemental retirement savings plan for the State of California (State) public school teachers and certain other employees of the State's public school system. The System is comprised of a total of four fiduciary funds:

1. State Teachers' Retirement Plan (STRP)
2. Voluntary Investment Program (VIP)
3. Teachers' Health Benefits Fund (THBF)
4. Teachers' Replacement Benefits Program Fund (TRBPF)

FINANCIAL HIGHLIGHTS

- Net assets increased by \$3.7 billion or 4% to \$100.4 billion.
- Net investment income totaled \$3.7 billion for 2003, an increase of \$10.0 billion compared to a loss of \$6.3 billion in fiscal 2002.
- As of June 30, 2001, the most recent actuarial valuation, the System's Defined Benefit Program was funded at 98%, compared to a funding level of 110% as of June 30, 2000. The System's June 30, 2003 actuarial valuation is expected to be completed by Summer 2004.
- Total contributions increased by \$435.0 million or 9% to \$5.1 billion.
- Benefit payments increased by \$451.0 million or 10% to \$5.0 billion.
- Refund of contributions increased by \$6.4 million or 8% to \$83.0 million.
- The Medicare Premium Payment Program premiums paid for members were \$22.0 million.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of the following components: (1) fund financial statements, (2) notes to the financial statements, (3) required supplemental information, and (4) other supplemental information.

Fund financial statements. The combined statements of fiduciary net assets present information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decrease in net assets serves as a useful indicator of the health of the System's financial position. The combined statements of changes in fiduciary net assets show how the System's net assets changed during the fiscal year.

California State Teachers' Retirement System Management's Discussion and Analysis As of and for the Year Ended June 30, 2003

Notes to the financial statements. The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below.

- Note 1 provides a general description of the System, as well as a concise description of each of the funds administered by the System.
- Note 2 provides a summary of significant accounting policies, including the basis of accounting for the System, management's use of estimates, investment accounting policies, and other significant accounting policies.
- Note 3 describes investments, including investment risk categorizations, investing authority, and other significant investment information.
- Note 4 generally describes potential contingencies of the System.
- Note 5 provides a summary of significant commitments incurred by the System.
- Note 6 generally provides a summary of subsequent events related to the State's budget crisis and its effect on the System.

Required supplemental information. The required supplemental information consists of two schedules and related notes on the defined benefit pension plans' funding progress and history of contributions from employers and other contributing entities. These schedules provide historical information that assists in understanding the funded status of the System over time.

Other supplemental information. Included in the other supplemental information is detailed information on administrative expenses, investment expenses and consultant and professional services expenses.

FINANCIAL ANALYSIS

State Teachers' Retirement Plan (STRP). The State Teachers' Retirement Plan is a defined benefit pension plan, which provides for retirement, disability and survivor benefits. The STRP is comprised of three programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program. These three programs are accounted for in a single fund, the Teachers' Retirement Fund (TRF). The STRP net assets increased 3.7% during the fiscal year, from \$96.7 billion in 2002 to \$100.4 billion as of June 30, 2003.

STRP benefits are funded by employer, member, and state contributions, and by investment earnings. Total additions increased for the fiscal year ending June 30, 2003. Member contributions increased by \$217.0 million or 12% and employer contributions increased by \$112.5 million or 6%. Member contributions increased by a greater percentage because of the recognition of revenue from member accounts receivable for service credit purchases and redeposit of contributions previously refunded. The employer contributions are reduced by \$22 million that were deposited into the Teachers' Health Benefits Fund. State contributions increased by \$99.2 million or 11% to \$1.0 billion. The STRP experienced a net investment gain of \$3.7 billion in fiscal 2003 compared with a \$6.3 billion loss in fiscal 2002 as the global financial markets rebounded.

California State Teachers' Retirement System

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2003

Deductions for the year totaled \$5.1 billion. Enhanced retirement benefits along with growth in the number of new retirees increased benefit payments to \$5.0 billion, an increase of \$448.9 million or 10% over the prior year. Refund of contributions in fiscal 2003 increased \$5.5 million or 7% to \$79.5 million. Administrative expenses in fiscal 2003 increased \$8.9 million or 14% to \$72.7 million.

STRP investments, excluding securities lending collateral, increased by \$4.7 billion or 5% to \$101.2 billion at June 30, 2003. At June 30, 2003, STRP held \$59.8 billion in U.S. and international equity securities, an increase of \$2.7 billion or 5% from fiscal 2002. At June 30, 2003, STRP also held \$28.1 billion in U.S. and international debt securities, an increase of \$0.7 billion or 3% from fiscal 2002. Remaining holdings in alternative investments, real estate, and short-term investments were \$13.3 billion at June 30, 2003, an increase of \$1.5 billion or 12% from fiscal 2002. Net appreciation on investments totaled \$0.7 billion compared to depreciation of \$9.4 billion in fiscal 2002.

The most recent actuarial valuation for the fiscal year ended June 30, 2001, indicates that the DB Program is underfunded, with 98% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2001. This is a decrease of 12% from the 110% funded status determined in the June 30, 2000 actuarial valuation. The amount by which the STRP actuarial benefit liabilities exceeded actuarial assets was \$2.2 billion at June 30, 2001. The decrease in funding status in fiscal 2001 is mainly attributable to new benefits enacted, the investment return being less than the assumed return of 8.0%, and total teacher payroll increases that were in excess of the assumed rate of 4.25%. The findings of the most recent actuarial valuation indicate that expected future revenue for the DB Program is expected to be sufficient to finance its obligations including amortization of the unfunded status by 2030. The System expects to complete the June 30, 2003, actuarial valuation by the Summer of 2004.

Voluntary Investment Program (VIP). The VIP is a tax-deferred defined contribution plan and meets the requirements of the Internal Revenue Code, Section 403(b). CitiStreet, L.L.C, provides administrative services. The VIP benefits are the sum of the contributions and investment earnings credited to the member's account at the time of retirement, disability, or termination of employment. The VIP is designed to offer members an opportunity to supplement their pension benefits. The VIP's June 30, 2003 investments and net assets each increased by \$12.6 million or 21% and 20%, respectively. Contributions by members in fiscal 2003 increased by \$3.0 million or 21% while investment gains in fiscal 2003 totaled \$1.1 million compared to a loss of \$6.2 million in 2002. Deductions from the VIP increased by \$2.6 million or 76% to \$5.9 million primarily due to higher member withdrawals.

Teachers' Health Benefits Fund (THBF). The THBF is an employee benefit trust fund created to administer health benefit programs for members of the System. The Medicare Premium Payment Program is the only program within this fund. This program is designed to pay Medicare Part A premiums and surcharges and Part B surcharges for members meeting certain eligibility criteria. This program is funded on an as needed basis from current employer contributions, which increased by \$3.2 million or 17% to \$22.2 million during fiscal 2003. Benefits paid increased by \$0.5 million or 2% from \$21.5 million to \$22.0 million for fiscal 2003. The assets of the THBF are invested in the State of California's Surplus Money Investment Fund and earned \$53 thousand in interest income during fiscal 2003.

Teachers' Replacement Benefit Program Fund (TRBPF). The TRBPF is a replacement pension benefit plan established to pay the portion of annual benefits that exceed the annual limitations under Section 415 of the Internal Revenue Code of 1986 (26 U.S.C. Section 415). This benefit program is funded from current employer contributions on an as needed basis. Contributions of approximately \$68 thousand and \$13 thousand were received and paid as benefits during fiscal 2003 and 2002, respectively.

California State Teachers' Retirement System
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2003

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM PLAN FINANCIAL INFORMATION

Net Assets

(Dollars in Thousands)

	2003	2002	PERCENTAGE CHANGE
ASSETS			
Invested assets ¹	\$101,263,590	\$96,512,286	5%
Cash and cash equivalents	160,685	69,061	133%
Receivables	2,290,885	2,036,305	13%
Other assets	1,357	873	55%
TOTAL ASSETS	\$103,716,517	\$98,618,525	5%
LIABILITIES			
Benefits in process of payment	\$ 464,970	\$425,339	9%
Investment settlement	1,308,387	969,034	35%
Leverage program obligation	1,018,953	-	100%
Other liabilities ¹	475,663	450,956	5%
TOTAL LIABILITIES	3,267,973	1,845,329	77%
TOTAL NET ASSETS	\$100,448,544	\$96,773,196	4%

¹ Excludes offsetting entries from securities lending collateral.

California State Teachers' Retirement System
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2003

Change in Net Assets
(Dollars in Thousands)

	2003	2002	PERCENTAGE CHANGE
ADDITIONS			
Member/participant contributions	\$2,111,576	\$1,891,493 ²	12%
Employer contributions	1,990,263	1,874,548 ³	6%
State contributions	1,014,992	915,825	11%
Investment income (loss) and other expense	3,689,290	(6,308,713)	158%
TOTAL ADDITIONS	\$8,806,121	\$(1,626,847)	641%
DEDUCTIONS			
Benefit payments	\$4,974,174	\$ 4,523,167	10%
Refund of contributions	82,991	76,579	8%
Administrative expenses	73,608	64,534	14%
TOTAL DEDUCTIONS	\$5,130,773	\$ 4,664,280	10%
INCREASE (DECREASE) IN NET ASSETS	\$3,675,348	\$(6,291,127)	158%

² Approximately \$4.4 million of 2001 member contributions have been included in 2002 member contributions for this analysis to account for timing differences.

³ Approximately \$130.4 million of 2001 employer contributions have been included in 2002 employer contributions for this analysis to account for timing differences.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide a general overview of the System's finances. For questions concerning any information in this report or for additional information contact the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

California State Teachers' Retirement System
Combined Statements of Fiduciary Net Assets
As of June 30, 2003
With Reporting Entity Totals as of June 30, 2003 and 2002
(Dollars in Thousands)

	State Teachers' Retirement Plan	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Reporting Entity Totals	
					2003	2002
Assets						
Investments, at fair value:						
Short-term	\$ 2,473,879	\$ 26,632	\$ 996	\$ -	\$ 2,501,507	\$ 2,414,366
Debt securities:						
Domestic	28,117,247	4,512	-	-	28,121,759	27,419,706
International	4,267	165	-	-	4,432	10
Equities:						
Domestic	40,110,794	39,930	-	-	40,150,724	36,925,148
International	19,640,460	2,994	-	-	19,643,454	20,296,030
Alternative	5,062,283	-	-	-	5,062,283	4,253,767
Real estate	5,779,431	-	-	-	5,779,431	5,203,259
Securities lending collateral	14,366,853	-	-	-	14,366,853	13,325,351
Total investments	115,555,214	74,233	996	-	115,630,443	109,837,637
Cash and cash equivalents	160,677	-	1	7	160,685	69,061
Receivables:						
Investments sold	942,089	-	-	-	942,089	447,476
Foreign currency exchange contracts	380,596	-	-	-	380,596	612,459
Interest and dividends	375,726	25	-	-	375,751	447,680
Member/employer and other	591,312	455	682	-	592,449	528,690
Total receivables	2,289,723	480	682	-	2,290,885	2,036,305
Other assets	1,357	-	-	-	1,357	873
Total assets	\$ 118,006,971	\$ 74,713	\$ 1,679	\$ 7	\$ 118,083,370	\$ 111,943,876
Liabilities						
Payable for investments purchased	\$ 931,081	\$ -	\$ -	\$ -	\$ 931,081	\$ 313,305
Payable for foreign currency exchange contracts	377,306	-	-	-	377,306	655,729
Benefits in process of payment	464,868	-	95	7	464,970	425,339
Leverage program obligation	1,018,953	-	-	-	1,018,953	-
Other liabilities	475,582	59	22	-	475,663	450,956
Securities lending collateral	14,366,853	-	-	-	14,366,853	13,325,351
Total liabilities	17,634,643	59	117	7	17,634,826	15,170,680
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Schedule I)	\$ 100,372,328	\$ 74,654	\$ 1,562	\$ -	\$ 100,448,544	\$ 96,773,196

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System
Combined Statements of Changes in Fiduciary Net Assets
For the year ended June 30, 2003
With Reporting Entity Totals for the Years Ended June 30, 2003 and 2002
(Dollars in Thousands)

	State Teachers' Retirement Plan	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Reporting Entity Totals	
					2003	2002
Additions						
Contributions:						
Members	\$ 2,094,096	\$ 17,480	\$ -	\$ -	\$ 2,111,576	\$ 1,887,119
Employers	1,967,974	-	22,221	68	1,990,263	1,744,108
State of California	1,014,992	-	-	-	1,014,992	915,825
Total contributions	5,077,062	17,480	22,221	68	5,116,831	4,547,052
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	655,886	101	-	-	655,987	(9,378,888)
Interest, dividends and other investment income	3,048,438	953	53	-	3,049,444	3,065,966
Securities lending income	260,814	-	-	-	260,814	463,821
Less investment expenses:						
Cost of lending securities	(196,188)	-	-	-	(196,188)	(374,092)
Other	(80,696)	-	-	-	(80,696)	(80,058)
Net investment income (loss)	3,688,254	1,054	53	-	3,689,361	(6,303,251)
Other expense	(71)	-	-	-	(71)	(5,462)
Total additions	8,765,245	18,534	22,274	68	8,806,121	(1,761,661)
Deductions						
Retirement, death and survivor benefits	4,716,300	1,965	22,026	68	4,740,359	4,266,191
Refunds of member contributions	79,513	3,478	-	-	82,991	76,579
Purchasing power benefits	233,815	-	-	-	233,815	256,976
Administrative expenses	72,749	504	355	-	73,608	64,534
Total deductions	5,102,377	5,947	22,381	68	5,130,773	4,664,280
Net increase (decrease)	3,662,868	12,587	(107)	-	3,675,348	(6,425,941)
Net assets held in trust for pension benefits:						
Beginning of year	96,709,460	62,067	1,669	-	96,773,196	103,199,137
End of year	\$ 100,372,328	\$ 74,654	\$ 1,562	\$ -	\$ 100,448,544	96,773,196

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred defined contribution plan, the Medicare Premium Payment Program, and the Replacement Benefits Program as described below. These plans and programs were established and administered by those sections of the State Education Code known as the Teachers' Retirement Law (Section 22000 et. seq.), as amended and enacted by the State of California (State) Legislature. The System is a component unit of the State. These basic financial statements include only the accounts of the System. The System's basic financial statements are included as a fiduciary fund in the financial statements of the State. The System provides pension benefits to California full-time and part-time public school teachers from preschool through grade fourteen and certain other employees of the public school system.

State Teachers' Retirement Plan (STRP)

The State Teachers' Retirement Plan (STRP) is comprised of three programs: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program (DBS Program), and the Cash Balance Benefit Program (CB Benefit Program). The assets of the STRP are held for the exclusive purpose of providing benefits to members and beneficiaries of the DB Program, the DBS Program and the CB Benefit Program and defraying reasonable expenses of administering the STRP and the System.

STRP Defined Benefit Program (DB Program)

The DB Program is a defined benefit pension plan, which operates under the Internal Revenue Code (IRC). At June 30, 2003, there were approximately 1200 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is a non-employer contributor to the STRP. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2002, membership consisted of:

Active members:	
Vested	255,722
Nonvested	186,486
Inactive members	96,159
Retirees and benefit recipients	177,069
Total members, retirees and beneficiaries	<u>715,436</u>

Information as of June 30, 2003, will not be available prior to December 2003.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

The DB Program provides defined retirement benefits based on members' final compensation, age, and years of credited service, as reported by the contributing employer. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions include:

- After five years of credited service, members become 100% vested in retirement benefits earned to date. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2% of final compensation for each year of credited service. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service shall receive an additional 0.2% of final compensation. In no event shall the total benefit factor exceed 2.4%.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retire on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elects to pay the additional benefit cost. One-year final compensation means a member's highest average annual compensation earnable calculated by taking the creditable compensation that a member could earn in a school year while employed, if he or she were employed on a full-time basis, and if that person worked full time in that position during any period of 12 consecutive months. For all other members, final compensation is defined as the highest average annual compensation earned during any three consecutive years of credited service.

Members who retire on or after January 1, 2001, and accumulate at least 30 years of credited service by January 1, 2011, will receive a longevity bonus.

- After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50% of final compensation plus 10% of final compensation for each eligible child, up to a maximum addition of 40%. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.
- A family benefit is available if an active member died and had at least one year of credited service.
- Members' accumulated contributions are refundable with interest upon separation from the System. For the year ended June 30, 2003, the rate of interest credited to members' accounts is 3.75%.

Purchasing power protection is provided to those benefit recipients whose purchasing power has been reduced below certain levels. The purchasing power protection is funded by a combination of School Lands Revenue and State General Fund (General Fund) contributions to the Supplemental Benefit Maintenance Account (SBMA). School Lands Revenue is appropriated pursuant to Public Resources Code Section 6217.5 from the use of school lands. The SBMA provides annual distributions (in quarterly payments) to retired and disabled members and beneficiaries in order to restore purchasing power to a minimum of 80% of the initial monthly allowance.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

Required Contributions

The Teachers' Retirement Law sets required member and employer contribution rates. Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The System also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory contribution rates and other sources of contributions to the DB Program are as follows:

- | | |
|---------------------|---|
| Members | - 6% of applicable member earnings through December 31, 2010, increasing to 8% thereafter for service less than or equal to one year of creditable service per fiscal year. |
| Employers | - 8.25% of applicable member earnings for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the employer contribution rate is 0.25%. |
| State of California | - Beginning July 1, 1999, under Education Code Section 22955, the General Fund transferred annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements which became effective January 1, 1999. The enactment of Chapter 1021, Statutes of 2000 (AB 2700) provided for a reduction in such funding from the General Fund to a factor of 2.5385% beginning July 1, 2000. The funding was further reduced to 1.9750% beginning July 1, 2001, and effective through June 30, 2003. Beginning July 1, 2003, the rate increases to 2.017% of the member's creditable earnings from the fiscal year ending in the prior calendar year. |

Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year was established under Education Code Section 22955. This contribution is reduced to zero if there is no unfunded obligation and no normal cost deficit for benefit plans in place as of July 1, 1990. Although there was an unfunded obligation of \$2.2 billion as of the June 30, 2001 actuarial valuation, there was no normal cost deficit and there was no unfunded obligation for benefits in place as of July 1, 1990.

In their most recent actuarial valuation as of June 30, 2001, the System's independent actuaries determined that, at June 30, 2001, the actuarial value of the DB Program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are equivalent to 17.117% of covered payroll and are sufficient to fund normal cost (16.497% of covered payroll) and amortize the actuarial unfunded obligation of \$2.2 billion at June 30, 2001 by 2030. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the DB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other membership related factors.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

STRP Defined Benefit Supplement Program (DBS Program)

The DBS Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension plan that operates within the STRP. All persons who were active members of the DB Program on or after January 1, 2001, are also members of the DBS Program.

Beginning January 1, 2001 and continuing through December 31, 2010, 2% of applicable member earnings for service less than or equal to one year of creditable service per fiscal year are credited to the members' nominal DBS Program accounts. For service in excess of one year within one fiscal year, the member contributions of 8% and employer contributions of 8% are credited to the members' nominal DBS Program accounts. Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Teacher's Retirement Board (Board) prior to each plan year, which was 5.5% for the year ended June 30, 2003. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return.

In addition, member and employer contributions are credited to the member's DBS account on compensation earned from service in one school year that exceeds the full-time equivalent (FTE) for the position, resulting in more than one year of credit service. Also, contributions for the compensation as a result of retirement incentives or limited term enhancements are credited to the members account. This provision will not cease at the end of 2010.

In the most recent actuarial valuation as of June 30, 2002, the System's independent actuaries determined that the actuarial value of liabilities of the DBS Program exceeded the actuarial value of assets by \$51.3 million. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the DBS Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other membership related factors.

STRP Cash Balance Benefit Program (CB Benefit Program)

The CB Benefit Program, established under Chapter 592, Statutes of 1995 and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension plan. The CB Benefit Program operates under the IRC and is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Interest is credited to the nominal CB Benefit Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 5.5% for the year ended June 30, 2003. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return.

Participation in the CB Benefit Program is optional to school districts, community college districts, county offices of education, and regional occupational programs. A school district, community college district, county office of education, or regional occupational program may elect to offer the CB Benefit Program. Under such election, the program will automatically cover each eligible employee, unless the employee elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

A summary of statutory contribution rates for the CB Benefit Program is as follows:

Participants	-	4% of applicable participant earnings
Employers	-	4% of applicable participant earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2003, there were 25 contributing school districts and 16,160 contributing participants.

In the most recent actuarial valuation as of June 30, 2002, the System's independent actuaries determined that the actuarial obligation of the CB Benefit Program exceeded the actuarial value of assets by \$3.3 million. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the CB Benefit Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other membership related factors.

Voluntary Investment Program (VIP)

The VIP was established pursuant to Chapter 291, Statutes of 1994. Under the requirements of IRC Section 403(b), the VIP is a tax-deferred defined contribution plan open to any employee from the State's school districts, community college districts, county offices of education, and regional occupational programs. Contributions to the program are voluntary and are not subject to a minimum limitation. However, the IRC imposes a maximum amount that can be contributed annually. At June 30, 2003, there were 3,193 plan participants and 404 participating employers (school districts).

CitiStreet, L.L.C. provides administrative services to the VIP, including custody and record keeping services. The VIP's investments are comprised of the Share Account Manager, Mutual Fund Window account and Temp Cash Fund. The Share Account Manager invests in various mutual funds, including bond and stock funds. The Mutual Fund Window account allows plan participants to select and invest in certain domestic and international mutual funds. The Temp Cash Fund invests in various money market instruments.

Teachers' Health Benefits Fund (THBF)

The THBF was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) to provide the Medicare Premium Payment Program to retired members of the DB Program. Funds from the THBF are used to pay Medicare Part A premiums for DB Program members who are retired or will retire prior to January 1, 2006, and who meet certain other eligibility criteria.

The THBF is funded as needed, from that portion of the monthly DB Program statutory employer contribution that exceeds the DB Program annual required contribution. Management believes the current source of THBF funding will be adequate to provide for the statutory THBF benefits. At June 30, 2003, there were 5,683 retirees participating in the THBF.

Teachers' Replacement Benefits Program Fund (TRBPF)

IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The TRBPF was established pursuant to Chapter 465, Statutes of 1999 (AB 819) to provide benefits to the members of the System whose defined benefit retirement benefit exceeds the IRC 415(b) statutory limit.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

The TRBPF is funded as needed. Monthly employer contributions are received by the TRBPF and paid to members in amounts "equivalent to" the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2003, there were five retirees participating in the TRBPF.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting records of the System are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the System's retirement and benefits programs.

Use of Estimates in the Preparation of Financial Statements

The preparation of the System's basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and when applicable, disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of 90 days or less. Significant cash equivalents held by the System include repurchase agreements and foreign currency.

Investments

The majority of the securities held in the investment portfolio at June 30, 2003, are in the custody of or controlled by State Street Bank, the System's master custodian. State statutes and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages, and other investments.

Investments are reported at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, management, based on market yields, computes fair value and average maturity dates of comparable quoted securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Alternative investments represent interests in private equity partnerships in which the System enters under a limited partnership agreement. For alternative investments and other investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

The System presents, in the combined statements of changes in fiduciary net assets, the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation and depreciation on those investments. Purchases and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, credit risks, foreign currency exchange risks, and event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

Investment Risk Management

The STRP enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of its foreign investments. The STRP also enters into futures contracts to minimize exposure to unfavorable fluctuations in the domestic equity markets. The futures contracts are financial instruments that derive their value from underlying indices. These hedging contracts are reported at fair value based on published market prices and quotations from major investment firms. The STRP could be exposed to risk if the counter-parties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counter-parties by establishing minimum credit quality standards and maximum credit limits.

Administrative Expenses

The cost of administering the STRP is financed through the contributions and investment earnings that it receives. The VIP reimburses the STRP and the THBF for administrative services provided on their behalf.

Income Taxes

The STRP, THBF, and TRBPF are organized as tax-exempt retirement or benefit plans under the IRC. The VIP is organized as a tax-deferred supplemental program under the IRC. The System's management believes that it has operated these funds and programs within the constraints imposed by federal tax law.

Investment Expenses

Expenses directly associated with investment management have been included as other investment expenses. Indirect expenses have not been allocated.

Securities Lending Transactions

The System reports securities lent, the cash collateral held as assets, and the related liabilities resulting from securities lending transactions on the combined statements of fiduciary net assets. The System also reports the costs of lending securities as investment expenses on the combined statements of changes in fiduciary net assets.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

3. Cash, Cash Equivalents, and Investments

Cash held in the System's general operating accounts with the State Treasury was approximately \$250.6 million at June 30, 2003. These monies are pooled with the monies of other State agencies and invested by the State Treasurer's Office.

The System's investments are categorized below to give an indication of the category risk level assumed by the System at June 30, 2003, as defined by Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Category 1, the lowest risk, includes investments that are insured or registered or for which the System or its agent in the System's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent but not in the System's name. Investment pools managed by other governments, mutual funds, investments held by broker-dealers under securities loans, limited partnerships, and real estate equity investments are not categorized. There were no investments in Category 2 or 3 at June 30, 2003.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

The following table presents cash equivalents and investments held by the System, by type, at June 30, 2003 (dollars in thousands):

Investment Type	Category 1	Category Rating Not Required	Fair Value
Investments			
Short-term investments:			
Surplus Money Investment Fund	\$ -	\$ 251,591	\$ 251,591
Short Term Investment Fund	-	383	383
Certificates of deposit	25,000	-	25,000
Commercial paper	1,428,131	-	1,428,131
Treasury bills	53,625	-	53,625
Short-term agencies	716,143	-	716,143
Debt securities:			
Corporate obligations	9,599,954	-	9,599,954
US government obligations	1,826,675	-	1,826,675
Securitized obligations:			
Mortgage backed securities	6,661,593	-	6,661,593
Collateralized mortgage backed securities	754,467	-	754,467
Asset backed securities	216,767	-	216,767
Commercial mortgage backed securities	393,882	-	393,882
Equity securities	53,604,750	-	53,604,750
Mutual Funds:			
Temp Cash Fund	-	26,632	26,632
Fixed income funds	-	4,677	4,677
Equity funds	-	42,924	42,924
Alternative investments:			
Direct alternative investments	139,853	-	139,853
Limited partnerships	-	4,922,430	4,922,430
Real estate	-	5,779,431	5,779,431
Home loan program	-	618,469	618,469
Investments held by broker-dealer under securities loans:			
Debt securities:			
Corporate obligations	-	362,300	362,300
US government obligations	-	6,976,384	6,976,384
Securitized obligations:			
Mortgage backed securities	-	700,555	700,555
Asset backed securities	-	10,469	10,469
Equity securities	-	6,146,505	6,146,505
Sub-total investments	<u>\$ 75,420,840</u>	<u>\$ 25,842,750</u>	<u>\$ 101,263,590</u>
Securities Lending Collateral			
Short-term investments:			
Short Term Investment Fund	\$ -	\$ 211,924	\$ 211,924
Certificates of deposit	758,023	-	758,023
Commercial paper	93,074	-	93,074
Time deposits	105,553	-	105,553
Debt securities:			
Corporate obligations	5,007,922	-	5,007,922
US government obligations	794,126	-	794,126
Securitized obligations:			
Asset backed securities	6,106,996	-	6,106,996
Cash equivalents:			
Repurchase agreements	1,289,235	-	1,289,235
Sub-total securities lending collateral	<u>\$ 14,154,929</u>	<u>\$ 211,924</u>	<u>\$ 14,366,853</u>
Total Investments	<u>\$ 89,575,769</u>	<u>\$ 26,054,674</u>	<u>\$ 115,630,443</u>
Cash Equivalents			
Repurchase agreements	\$ 28,200	\$ -	\$ 28,200
Foreign currency	127,758	-	127,758
Total Cash Equivalents	<u>\$ 155,958</u>	<u>\$ -</u>	<u>\$ 155,958</u>

California State Teachers' Retirement System

Notes to the Basic Financial Statements

The investment in the Surplus Money Investment Fund (SMIF), administered by the State, represents various investments with average days to maturity of approximately 212 days, and is reported at amortized cost, which approximates fair value.

The investment in the Short-term Investment Fund, administered by State Street Bank, represents various investments with average days to maturity of approximately 55 days, and is reported at amortized cost, which approximates fair value.

The repurchase agreement transactions included in cash equivalents as of June 30, 2003, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yield is 0.35% with maturity dates through July 1, 2003.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign interest-bearing accounts until it can be repatriated or expended.

In the current fiscal year, the System initiated an investment program to leverage its real estate investments by borrowing against select real estate holdings (Leverage Program). Under the Leverage Program, two debt strategies were executed: a commercial mortgage-backed security (CMBS) for \$750 million and a revolving line of credit for \$275 million, net (collectively, the Leverage Program Obligation). The System used the proceeds from the Leverage Program Obligation to purchase various investments. At June 30, 2003, the ratio of the Leverage Program Obligation to the fair value of the underlying collateral of real estate properties was 35.7%. At June 30, 2003, the outstanding amount on the revolving line of credit was \$275.0 million, which matures in January 2006. Approximately \$456.1 million and \$19.5 million of the CMBS are due November 2007 and November 2009, respectively. Interest on the Leverage Program Obligation is based on various factors and is payable monthly. As of June 30, 2003, the annual interest rates ranged from 1.5% to 4.7%.

State statutes and Board policies permit the System to make short-term, collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. STRP has contracted with third party securities lending agents and its custodian to lend domestic and international equity and debt securities. The majority of security loans can be terminated on demand by either STRP or the borrower. Collateral in the form of cash or other securities is required for 102% and 105% of the fair value of domestic and international securities, respectively, loaned. Since the majority of these loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. At June 30, 2003, the weighted duration difference between the investments and these loans was 22 days. As of June 30, 2003, the System has no credit risk exposure to borrowers because the amounts the STRP owes the borrowers exceed the amounts the borrowers owe the STRP. STRP is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify STRP if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay STRP for income distributions by the securities' issuers while the securities are on loan.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

4. Contingencies

The System is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these litigations is not expected to have a material adverse effect on the System's financial position.

5. Commitments

In connection with the purchase of various partnership interests under its alternative investment portfolio and the real estate portfolio, the STRP has remaining funding commitments of approximately \$3.8 billion and \$1.5 billion, respectively, at June 30, 2003.

The STRP has entered into agreements through its Credit Enhancement Program to guarantee payment of principal and interest on certain debt securities in the event of default. At June 30, 2003, the STRP had commitments of approximately \$1.6 billion expiring through January 2008. The STRP is paid a fee over the term of such agreements and earned approximately \$4.8 million for the year ended June 30, 2003.

6. Subsequent Events

On July 1, 2003, the System did not receive the full amount of a transfer due from the State General Fund for payment to the SBMA (Note 1) pursuant to a continuous appropriation set forth in Education Code Section 22594. Instead of the sum of approximately \$558.9 million owed under Section 22594, the System received the reduced amount of approximately \$58.9 million pursuant to legislation (Chapter 6, Statutes of 2003, First Extraordinary Session) adopted by the State in partial response to the State's budget crisis applicable in the 2003-2004 fiscal year only. The System has initiated litigation to compel the State to transfer the remaining amount of \$500.0 million to the System.

In August 2003, Standard and Poor's Ratings Services downgraded the System's Credit Enhancement Program long-term credit rating to "AA+" from "AAA". The System's short-term "A-1+" rating was unaffected. Management believes that the downgrade reflects a similar downgrade for the State, the System's principal sponsor, and analyst expectation of a further decline in the System's funded ratio. Management also believes that the State's decision to reduce its July 1, 2003 SBMA contribution payment to the System influenced the credit rating downgrade.

Required Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Funding Progress
(Dollars in Millions)

Schedule I

The information presented in Supplemental Schedules I and II was determined as part of the actuarial valuations at June 30 of the respective years, except where noted. For the year ended June 30, 2002, the DBS Program was funded by member contributions only.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Defined Benefit Program ⁽¹⁾ :						
2003	(2)	(2)	(2)	(2)	(2)	(2)
2002	(3)	(3)	(3)	(3)	(3)	(3)
2001	\$ 107,654	\$ 109,881	\$ 2,227	98 %	\$ 20,585	11 %
2000	102,225	93,124	(9,101)	110 %	18,224	(50)%
1999	90,001	86,349	(3,652)	104 %	17,185	(21)%
1998	77,290	74,234	(3,056)	104 %	15,741	(19)%

Cash Balance Benefit Program ⁽¹⁾:

2003	(2)	(2)	(2)	(2)	(2)	(2)
2002	\$ 22	\$ 25	\$ 3	87 %	\$ 90	4 %
2001	16	17	1	93 %	98	1 %
2000	11	10	(1)	105 %	71	(1)%
1999	5	5	(1)	104 %	50	0 %
1998	1	2	1	46 %	19	5 %

Defined Benefit Supplement Program ⁽⁴⁾:

2003	(2)	(2)	(2)	(2)	(2)	(2)
2002	\$ 660	\$ 711	\$ 51	93 %	\$ 21,732	0.02 %
2001	207	213	6	97 %	20,585	0.03 %

(1) Effective January 1, 1999, the Defined Benefit Plan (DB Plan) and the Cash Balance Plan (CB Plan) merged to establish the State Teachers' Retirement Plan (STRP) which includes the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CB Benefit Program). All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

(2) Actuarial valuations as of June 30, 2003, are expected to be available by Summer of 2004.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Funding Progress
(Dollars in Millions)

Schedule I (Continued)

- (3) Beginning July 1, 2001, actuarial valuations are not prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations.
- (4) Effective January 1, 2001, the Defined Benefit Supplement Program (DBS Program) was established as part of the STRP. The 2001 information presented for the DBS Program, was subject to an actuarial study only, which is less in scope than a full actuarial valuation.

California State Teachers' Retirement System**State Teachers' Retirement Plan****Schedule of Contributions from Employers
and Other Contributing Entities****(Dollars in Millions)****Schedule II**

Year Ended June 30	Annual Required Contribution (a)	Contributed By Employers ⁽¹⁾ (b)	Contributed By the State ⁽²⁾ (c)	Total Contributed (b + c)	Percentage Contributed (b + c)/a
Defined Benefit Program ⁽³⁾ :					
2003	\$ 2,545	\$ 1,890	\$ 431	\$ 2,321	91%
2002	2,498	1,851	385	2,236	90%
2001	1,794	1,749	455	2,204	123%
2000	1,150	1,584	519	2,103	183%
1999	1,473	1,492	209	1,701	115%
1998	1,911	1,419	587	2,006	105%
Cash Balance Benefit Program ⁽³⁾ :					
2003	\$ 4	\$ 4	\$ -	\$ 4	100%
2002	4	4	-	4	100%
2001	3	3	-	3	100%
2000	2	2	-	2	100%
1999	2	2	-	2	100%
1998	1	1	-	1	100%
Defined Benefit Supplement Program:					
2003	\$ 72	\$ 72	\$ -	\$ 72	100%

(1) For DB Program year ended June 30, 1998, amounts include employer contributions under Education Code Sections 22950 and 22953. For the years ended June 30, 1999 and thereafter, amounts include employer contributions under Education Code Sections 22950 and 22951. For the year ended June 30, 2000, amount also includes employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA) and 22718.

(2) The DB Program includes State contributions under Education Code Section 22955.

(3) Effective January 1, 1999, the DB Plan and the CB Plan merged to establish the STRP which includes the DB Program and the CB Benefit Program. All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers
and Other Contributing Entities

Schedule II (Continued)

Additional information as of the June 30, 2001, actuarial valuation for the DB Program is as follows.

DB Program

Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of payroll
Amortization Period	Open
Remaining Amortization Period	29 - Years
Asset Valuation Method	3-Year Asset Smoothing

Actuarial Assumptions:

Investment rate of return	8.00%
Interest on accounts	8.00%
Projected salary increases	4.25%
Consumer price inflation	3.50%
Post-retirement benefit increases	2.00% simple

Additional information as of June 30, 2002, actuarial valuations for the CB Benefit Program and the DBS Program is as follows:

CB Benefit Program

DBS Program

Actuarial Cost Method	Traditional Unit Credit	Traditional Unit Credit
Amortization Method	Not applicable	Not applicable
Amortization Period	Not applicable	Not applicable
Remaining Amortization Period	Not applicable	Not applicable
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets

Actuarial Assumptions:

Investment rate of return	8.00%	8.00%
Interest on accounts	8.00%	8.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.50%	3.50%
Post-retirement benefit increases	Not applicable	Not applicable

Other Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Administrative Expenses
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule III

Personnel services:

Salaries and wages	\$ 26,008
Staff benefits	6,528
Accrued vacations	3,592
Total personnel services	<u>36,128</u>

Operating expenses and equipment:

General expense	3,017
Depreciation expense	234
Printing	1,232
Communications	679
Postage	1,276
Insurance	12
Travel	271
Training	602
Facilities operations	4,637
Consultants and professional services	6,763
Consolidated data center:	
Consultants and professional services	7,420
Data processing:	
Consultant and professional services	12,910
Software and other	1,988
Central administrative services	1,529
Equipment	103
Other	1
Interest	2
Total operating expenses and equipment	<u>42,676</u>
Total current year expenses that are budgeted	<u>78,804</u>

Prior year expenses, net	(6,055)
Total	<u>\$ 72,749</u>

Fund sources:

Budget Act, Chapter 106, Statutes 2001	\$ 78,306
Legislation, Chapter 802, Statutes 2001	697
Legislation, Chapter 1021, Statutes 2001	37
Education Code 22330	15
SBMA/administration expense	(85)
Reimbursements	(166)
Prior-Budget Act	(6,055)
Total fund sources	<u>\$ 72,749</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule IV

External equity managers:

Domestic:

Ariel Capital Management	\$ 1,807
Barclays Global Investors	1,754
Brown Capital Management Inc.	1,214
Chicago Equity Partners	970
Delaware Investment Advisors	848
Delphi Management, Inc.	1,045
Denver Investment Advisor Inc.	3,105
DSI International Management	315
First Quadrant	2,140
Mellon Capital Management	303
NCM Capital Management Group Inc.	517
Putnam Investments	245
Sasco Capital, Inc	3,494
State Street Bank Global Advisors	1,305
TCW Asset Management	335
UBS Global Asset Management	2,285
Total domestic	<u>21,682</u>

International:

Bank of Ireland	1,925
Barclays Global Investors	829
Battery March	910
Blackrock International Ltd.	967
Capital Guardian Trust	3,514
Columbia Management Advisor's Inc.	737
Delaware International Trust	1,363
Deutsche Asset Management	307
Fidelity Management Trust Co.	1,353
Fiduciary Trust International	1,366
Goldman Sachs	1,179
Lazard Freres Asset Management	2,244
Marvin & Palmer Associates Inc.	1,626
Morgan Stanley	1,497
Nicholas Applegate	1,557
Oechsle International Advisors	2,826
Schroder Capital Management Investment, Ltd.	1,366
State Street Global Advisors	1,605
UBS Global Asset Management	1,800
Total international	<u>28,971</u>
Total external equity managers	<u>50,653</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule IV (Continued)

External fixed income managers:

Hartford Investment Management Company	824
MW Post Advisory Group, LLC	593
Seix Investment Advisors	919
Shenkman Capital Management	235
Total fixed income managers	<u>2,571</u>

Real estate managers/advisors:

CB Richard Ellis	5,607
Clarion Partners	1,511
Heitman Capital MGMT LLC	1,647
Lend Lease Real Estate Inv	3,877
Lowe Enterprises	912
MIG Realty Advisors, Inc.	324
Principal Global Investors	1,238
SSR Realty Advisors	1,841
Sentinel Realty Advisors	168
Thomas Properties	1,047
Total real estate managers/advisors	<u>18,172</u>

Advisors and consultants:

Altius Associates	217
Bard Consulting	31
Bonuccelli & Associates, Inc	20
Callan Associates	40
Cambridge Associates	425
Courtland Partners, LTD	47
Houlihan Loke Howard & Zukin	75
KPMG LLP	184
McKinsey & Company, Inc. Uni	518
Pacific Corporate Group	49
Pathway Capital Management, LLC	25
Pension Consulting Alliance	1,067
Sarofim Realty	958
The McMahan Group	89
Watson Wyatt Worldwide	61
Westwood Consulting Group	112
William Mercer Investments	33
Total advisors and consultants	<u>3,951</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule IV (Continued)

Attorneys, master custodian and insurers:	
Cox, Castle & Nicholson	494
Groom Law Group	104
Lofton & Jennings	28
Robert Driver Ins Brokerage	420
State Street Bank & Trust Co.	3,725
Testa, Hurwitz & Thibault, LLP	13
Total attorneys, master custodian and insurers	<u>4,784</u>
Other Expenses:	
CSUS Foundation	107
Miscellaneous	81
State Controller's Office	19
State Personnel Board	2
Stephen Teale Data Center	22
Travel	334
Total other expenses	<u>565</u>
Total investment expenses from continuous appropriation	<u>\$ 80,696</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule V

Individual or Firm	Commission/ Fee	Nature of Service
Consulting and professional services:		
Alameda County Office of Education	\$ 102	Regional Counseling Services
California State University Foundation	1,093	Consulting Services
Campbell Union High School District	174	Regional Counseling Services
Carroll & Scully, Inc.	114	Legal Services
Contra Costa County Office of Education	103	Regional Counseling Services
Department of General Services	22	Legal Services
Department of Justice	99	Legal Services
Employment Development Department	26	Consulting Services
Fleishman-Hilliard	154	Consulting Services
Fresno County Office of Education	90	Regional Counseling Services
Hogan & Hartson	198	Advocate and Legal Representation
Kern County Superintendent of Schools	173	Regional Counseling Services
Liebman & Associates	27	Vocational Assessments and Reports
Los Angeles County Office of Education	712	Regional Counseling Services
Merced County Office of Education	37	Regional Counseling Services
Mercer Human Resource Consulting	167	Consulting Services
Milliman USA	88	Actuarial Services
Olsen, Hagel & Fishburn, LLP	69	Legal Services
Orange County Department of Education	229	Regional Counseling Services
Pleasanton Unified School District	103	Regional Counseling Services
PricewaterhouseCoopers LLP	86	Audit Services
San Bernardino County Office of Education	268	Regional Counseling Services
San Diego County Office of Education	247	Regional Counseling Services
San Francisco County Office of Education	49	Regional Counseling Services
San Joaquin County Office of Education	117	Regional Counseling Services
San Juan Unified School District	197	Regional Counseling Services
San Mateo-Foster School District	90	Regional Counseling Services
Santa Barbara County Office of Education	89	Regional Counseling Services
Santa Cruz County Office of Education	81	Regional Counseling Services
Shasta County Office of Education	137	Regional Counseling Services
Solano County Office of Education	69	Regional Counseling Services
Sonoma County Office of Education	93	Regional Counseling Services
Stanislaus County Office of Education	50	Regional Counseling Services
State Controller's Office	795	Various Financial Services
State Personnel Board	47	Legal Services
Superior Rehabilitation Services	16	Vocational Assessments and Reports
Tulare County Superintendent of Schools	59	Regional Counseling Services
Ventura County Superintendent of Schools	100	Regional Counseling Services
Visual Communications	45	Consulting Services
W.O.B. Management	21	Vocational Assessments and Reports
Yuba County Office of Education	48	Regional Counseling Services
Other	279	Various Services under \$10
	<u>6,763</u>	

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule V (Continued)

Individual or Firm	Commission/ Fee	Nature of Service
Data Processing:		
Aspen Computer Solutions	119	Data Processing
Audio Graphic Systems	16	Data Processing
The Ballard Group	705	Data Processing
Barr Systems	10	Data Processing
Capital Network Solutions	25	Data Processing
Citistreet Advisors	60	Data Processing
Coastline Technology	161	Data Processing
Compaq	7	Data Processing
Convergent Computing	125	Data Processing
Direct Applications, Inc.	39	Data Processing
Eclipse Solutions	221	Data Processing
Filenet Corporation	11	Data Processing
Graphic Focus	53	Data Processing
H. L. Yoh, Company, LLC	65	Data Processing
Inforce, Inc.	434	Data Processing
Information Technology	353	Data Processing
Inter Plex International, LLC	149	Data Processing
International Network	658	Data Processing
Jaykumar Maistry	190	Data Processing
Key Municipal Finance	101	Data Processing
KPMG, LLP	55	Data Processing
Mara Consulting	163	Data Processing
Meta Group	32	Data Processing
Montridge Consulting	38	Data Processing
MSX International	114	Data Processing
Nanran	1,040	Data Processing
Net Incomm Incorporated	488	Data Processing
NFP Accounting	16	Data Processing
Norrisoft	48	Data Processing
Personal Enterprises	36	Data Processing
Pilot Computer Systems	80	Data Processing
Princeton Solutions Group	205	Data Processing
Quest Media & Supplies	150	Data Processing
Sapphire Technologies	254	Data Processing
Science Applications	49	Data Processing
Sierra Metrics, Inc.	854	Data Processing
Software AG, Inc.	564	Data Processing
Synergy Consulting, Inc.	1,106	Data Processing
Systems West Computer	41	Data Processing
Tetra Corporation Services	13	Data Processing
Thomas Ferrous	171	Data Processing
Visionary Integration	1,482	Data Processing
Venturi Technology Partners	171	Data Processing
Verizon Network	30	Data Processing
Witness Systems	25	Data Processing
Worldgroup Consulting	1,406	Data Processing
Wright On-Line Systems	744	Data Processing
Other	33	Various Services under \$10
	<u>12,910</u>	

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule V (Continued)

Individual or Firm	Commission/ Fee	Nature of Service
Consolidated Data Center:		
Health and Welfare Data Center	20	Data Processing
Stephen P. Teale Data Center	<u>7,400</u>	Data Processing
	<u>7,420</u>	
Total consultant and professional services expenses	<u>\$ 27,093</u>	

California State Teachers' Retirement System
Voluntary Investment Program
Schedule of Administrative Expenses
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule VI

CitiStreet, L.L.C. administrative fees	\$	376
State Teachers' Retirement Plan administrative fee		100
State Teachers' Retirement Plan sponsor fee		26
Loan fee		2
Total	\$	<u>504</u>

California State Teachers' Retirement System
Teachers' Health Benefits Fund
Schedule of Administrative Expenses
For the Year Ended June 30, 2003
(Dollars in Thousands)

Schedule VII

Personnel services:

Salaries and wages	\$	183
Staff benefits		52
Accrued vacations		21
Total personnel services		<u>256</u>

Operating expenses and equipment:

General expense		95
Training		1
Prorata		30
Total operating expenses and equipment		<u>126</u>
Total current year expenses that are budgeted	\$	<u>382</u>

Prior year expenses, net		<u>(27)</u>
Total	\$	<u>355</u>

Fund sources:

Continuous Appropriation - Chapter 1032 Statutes of 2000	\$	<u>355</u>
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